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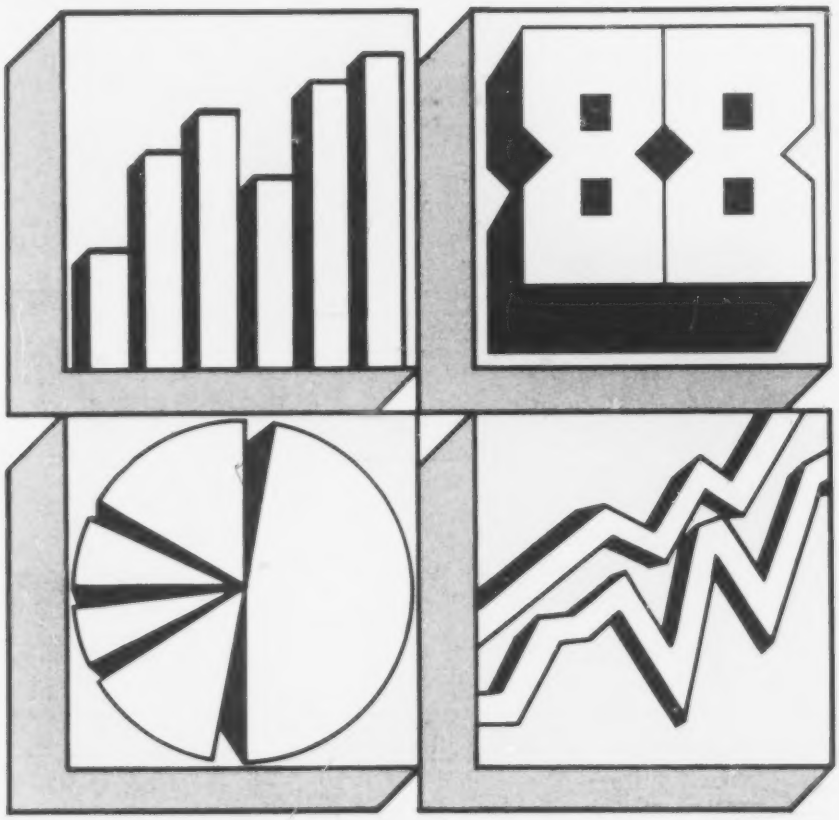
International Business Forms Industries, Inc.

PERSPECTIVE



The Present & Future of the North American Forms Industry

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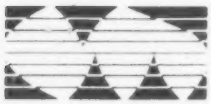

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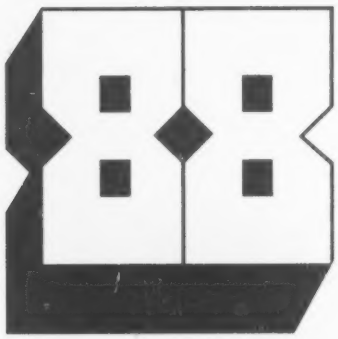

This is the 1988 edition of an annual publication prepared at the direction of the IBFI Financial Management & Economic Research Committee for the benefit of the industry and its customers. Each edition contains a detailed review of the previous year's results and a five-year demand forecast.

The author is responsible for all of the estimates and opinions in this volume. All charts and graphs are the work of the author. Every effort has been made to ensure accuracy but it of course cannot be guaranteed.

Doug Taylor

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EXECUTIVE SUMMARY

The U.S. forms industry will achieve real growth of 4.9% in 1988—about equal to the industry's growth rate for 1987. Custom and stock continuous remain the industry's fastest growing product lines, but growth in cut sheet papers easily exceeds that of the overall forms industry.

Rising raw materials costs have been the dominating factor in the industry's performance in 1987 and 1988. Coupled with healthy forms demand, these two factors have produced an environment that is more forgiving of price increases than in previous years. (According to the Bureau of Labor Statistics, producer prices for business forms increased 7.5% from June 1987 through June 1988.)

Recent technological developments point to further displacement of continuous forms demand by cut sheets. The introduction of a color laser copier by Canon and a high speed cut sheet page printer by IBM were two of the more significant new products introduced in 1988.

Aside from technology issues, the marketing challenges and opportunities facing forms manufacturers continue to rise. These include demographic changes among forms users, lowered entry barriers in some segments of the market, and the emergence of relatively new distribution channels—such as catalogs, direct mail, and commercial printers.

The future of the U.S. forms industry ultimately rests, of course, on the health of the overall economy. Through mid-1988, key indicators suggest that the U.S. economy will continue to expand at least through the first half of 1989. An economic slowdown, but not an outright recession, is likely to occur in late 1989 or 1990. This slowdown will be the result of action by the Federal Reserve to tighten the money supply in response to inflationary pressure building up in the economy.

Table 1 below forecasts forms demand through 1992.

TABLE 1
U.S. BUSINESS FORMS SALES, 1987-1992*

	1987	1988	1989	1990	1991	1992
Custom Continuous	$3,098	$3,268	$3,363	$3,433	$3,525	$3,606
Stock Continuous	1,628	1,707	1,792	1,847	1,921	2,023
Unit Sets	1,563	1,605	1,629	1,637	1,661	1,692
Salesbooks, Pegboard	[illegible]	348	359	383	409	437
Total	6,620	6,928	7,143	7,300	7,516	7,758

* In millions of 1987 dollars at shipment values; estimates for 1988 - 1992 are IBFI projections.

Source: IBFI

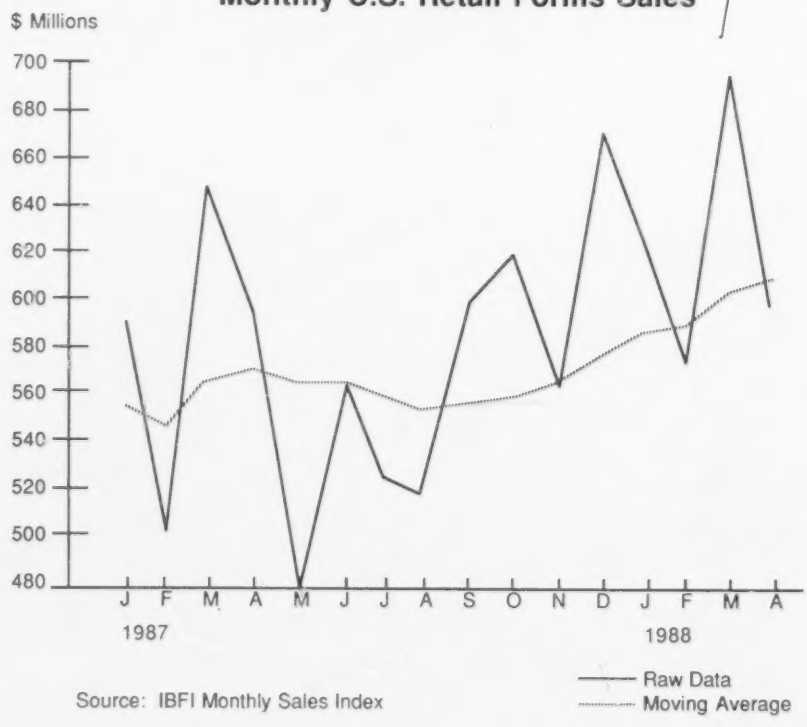
FORMS INDUSTRY PERFORMANCE REVIEW

In 1987, the U.S. business forms industry achieved real growth of 4.88% over the prior year, its best performance since 1984. Leading the way among the traditional forms industry product lines were custom continuous and stock continuous, which grew by 6.1% and 3.8%, respectively.

Figure 1 traces monthly industry sales from January 1987 through April 1988, based on IBFI member surveys. Figure 2 provides industry growth by product line for 1987.

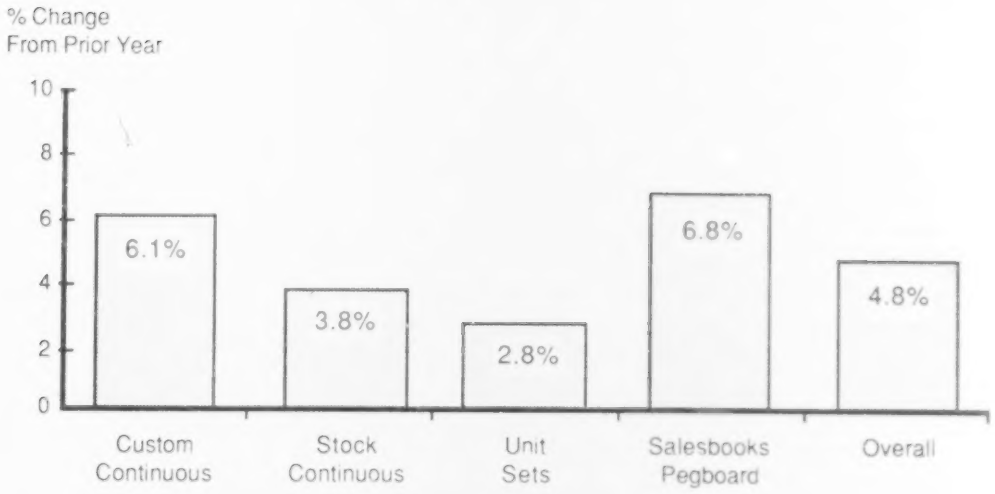
In custom continuous, which accounts for approximately 40% of total industry sales, the trend was up for most of the year—although price competition intensified in the second half of the year. The stock continuous segment was spared from the savage price wars of past years, as shown in Figure 3. The unit set segment grew by 2.8%, a result consistent with this product line's performance in recent years; salesbooks and pegboard systems achieved a growth of 6.8%.

Figure 1
Monthly U.S. Retail Forms Sales



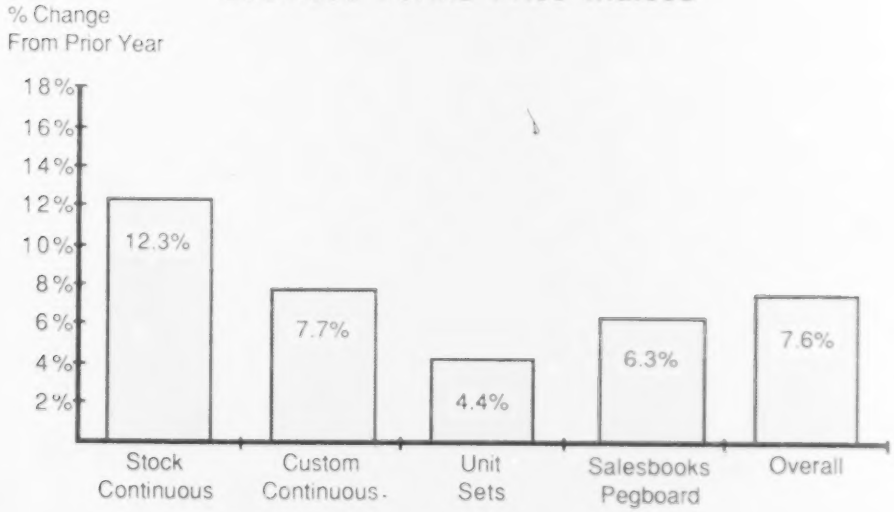
Source: IBFI Monthly Sales Index

Figure 2
1987 Industry Growth
By Product Line



Source: IBFI Monthly Sales Index

Figure 3
Business Forms Price Indices *



* Percentage increase in SIC 2761 Producer Price Indices, June 1987 through June 1988.

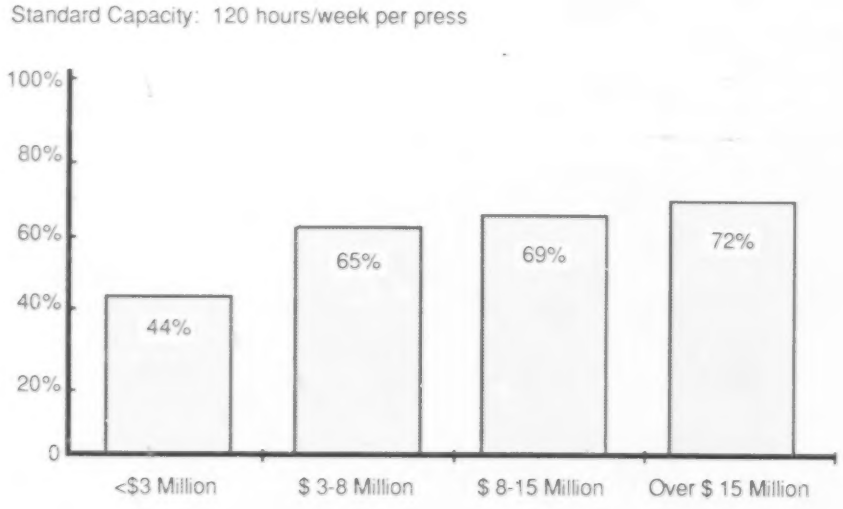
Source: Bureau of Labor Statistics

Capacity utilization in 1987 and through the first quarter of 1988 averaged 64.8% for the companies participating in the IBFI *Business Conditions Survey*, as shown in Figure 4. (Capacity utilization is standardized at 120 hours per week per press.)

Among the large, national business forms companies, capacity utilization from January 1987 through March 1988 was certainly higher than the figures shown in Figure 4; operating rates for these large firms were probably in a range of 72-75% over the above time frame. Variations in capacity utilization by product line are reported in Figure 5.

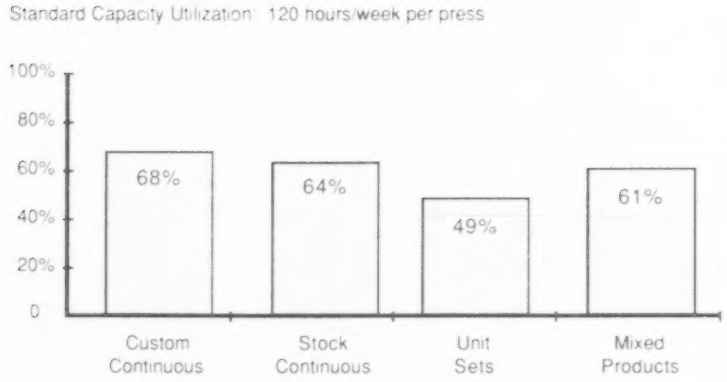
Figures 6 and 7 display gross profits per press hour for *Business Conditions Survey* participants.

Figure 4
Median Capacity Utilization
By Company Size
1st Qtr. 1987 thru 1st Qtr. 1988



Source: IBFI Business Conditions Survey

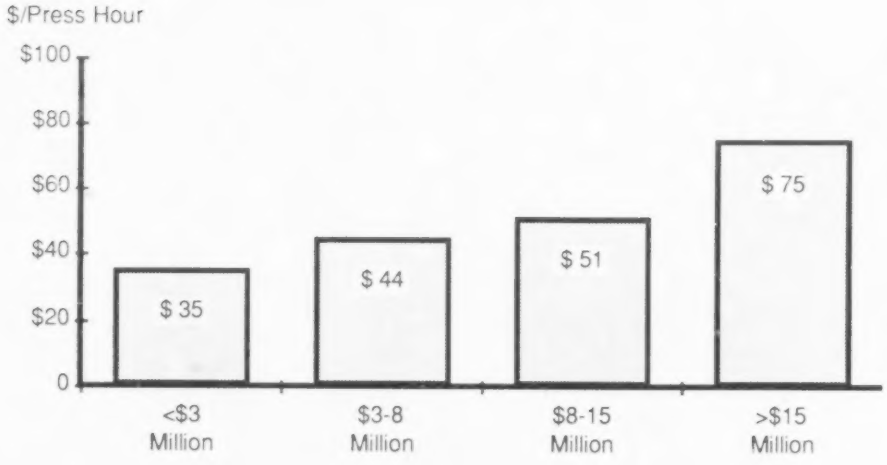
Figure 5
Median Capacity Utilization
By Primary Product
1st Qtr. 1987 thru 1st Qtr. 1988*



* This figure provides median capacity utilization for firms whose primary product (60% or more of sales) is either Continuous Custom; Stock Continuous; or Unit Sets; firms with less than 60% of sales in each of these product lines are in the Mixed Product category.

Source: IBFI Business Conditions Survey

Figure 6
Median Gross Profit per Press Hour
By Company Size
1st Qtr. 1987 thru 1st Qtr. 1988



Source: IBFI Business Conditions Survey

Figure 7
Median Gross Profit per Press Hour
By Primary Product
1st Qtr. 1987 thru 1st Qtr. 1988

Source: IBFI Business Conditions Survey

U.S. ECONOMIC OUTLOOK

The economic picture in 1988 has been muddled. One week, the newspapers are filled with fears of recession—usually following a drop in the government's index of leading indicators. A week later, perhaps following a drop in the unemployment rate, fears of recession have been displaced by concerns that the economy is overheating and inflation is about to be rekindled.

In the 1970's business decision makers could take certain facts of life for granted. Such as the stability of the dollar. The certainty of passing higher costs on to customers through regular price increases; and the predictability of the business cycle. No more. Now, in the 1980's a new set of rules exists. The economic facts of life for today's business environment have changed. Among the new facts of life are the following.

We live in an age of surplus. The 70's was an age of shortages, which meant the premium was on the availability of product, i.e., manufacturing; in an age of surplus, customers have plenty of vendors to choose from, domestic and overseas. The premium, therefore, is on the ability of a company to differentiate itself from other vendors—i.e., through marketing.

Mass markets are vanishing; niche markets are proliferating. The evolution of the business forms market over the last 10 years is ample evidence of this new fact of economic life. (Witness the growth in mailers, labels, and the short-run market.)

The government's traditional tools of economic leverage are disappearing. Due to advances in communications technology, in the growth of capital markets, deregulation, and the integration of global economies, the Federal Reserve Board does not have the same capacity it had 10 years ago to influence the state of the U.S. economy. Yet, the political trend of the moment is to encourage voters to expect the government to play an increasing role in safeguarding their economic future—witness the Omnibus Trade Bill passed by the U.S. Congress. Out of this mismatch between voter expectations and government's capacity will come the shifting of more and more "government" functions onto the shoulders of business—e.g., day-care centers, expanded health coverage, and basic education for workers.

The traditional business cycle has been replaced by a less predictable, less orderly economic cycle. The traditional business cycle is a boom followed by recession followed by recovery. We have had eight such cycles since the close of World War II, the last cycle ending in November of 1982; since then, the economy has achieved average real growth of 4.0% per year (1983-1987). The current recovery is the U.S. economy's longest period of expansion during peacetime.

The distinguishing characteristic of the traditional business cycle is for the government to be the catalyst. For instance, it kills a boom (to prevent inflation) by raising interest rates through a tightening of the money supply; higher interest rates send the housing and automobile markets into a tailspin, which in turn produces layoffs in ancillary industries—rubber, steel, lumber, etc. Then the government (actually the Federal Reserve) begins the recovery by pumping up the money supply—which puts buying power into consumers' hands. The cycle then begins again.

The current economic recovery has contradicted this scenario because the rate of inflation remained stable as the economy heated up in 1983 and 1984 (see Figure 8). This unprecedented situation was the result of many factors, especially the import boom created by the overvalued U.S. dollar; this produced a wave of competing products from foreign producers, making it extremely difficult for many domestic manufacturers to raise prices.

The traditional cycle theory works only if the government has sufficient leverage to impact the major industries in the economy. But most of these are now global industries that must react to global forces thereby diluting the influence of any one government over a particular industry. In fact, the single greatest leverage on the direction of the U.S. economy is the value of the U.S. dollar, but this is something over which the government has demonstrated uncertain control during this decade.

Figure 8
Year-to-Year Change in GNP and Consumer Prices

Source: Dept. of Commerce; Dept. of Labor

The Dollar & Trade

The main economic story of the 1980's has been the rise and fall of the U.S. dollar. Against the Japanese yen, for example, the dollar climbed steadily in the first half of the decade, peaking in February 1985 at over 240 yen to the dollar. By the end of 1987, it had lost over 50% of its value, and was trading at the rate of 122 yen to the dollar. In 1988 the dollar's value stabilized and, in the second quarter, began to increase in value, surpassing the 130 yen level by mid-year.

The conventional wisdom among the business community is that these swings in the dollar's value are dangerous and counter-productive. Actually, if the dollar had not experienced such swings in value, it is probable that the world's economic health would be far worse than it is today. Specifically, it was the dramatic rise in the dollar's value in 1983 and 1984 that pulled the rest of the world's economies out of the severe recession of 1981-82; this is because the expensive dollar made imports to the U.S. cheaper—thus stimulating the economies of U.S. trading partners.

The wave of imports that landed on U.S. shores also restrained the level of domestic inflation, as U.S. producers held prices and boosted efficiency in order to compete with foreign suppliers. As a result of these factors, the U.S. economy achieved substantial growth *without* a rekindling of inflation—a feat never before accomplished in the post-World War II era. This has been the signal economic achievement of the Reagan administration—proving that non-inflationary growth is possible.

The downside of the consumer-driven expansion that began in late 1982 was that, by the end of 1984, U.S. manufacturers were losing tremendous amounts of market share to foreign competitors. Then, in February 1985, the dollar reversed direction and began heading downward; this set the stage for the recovery of the U.S. manufacturing sector, as the cheaper U.S. dollar made foreign imports more expensive and U.S. exports more competitive.

The second stage of the current economic expansion has, therefore, been export-driven. The fall in the dollar's value was exactly what the world economy needed to keep the expansion rolling. It kept the world trade situation in balance—preventing one country (Japan) from steamrolling its competitors, which would have certainly led to drastic trade retaliation by Japan's trading partners.

The outlook for cooperation in world trade issues is generally positive—and certainly more optimistic than in many prior years. The U.S.-Canada trade pact, currently scheduled to take effect January 1, 1989, is a case in point. This agreement is scheduled to remove tariffs on most products traded between these two countries, with the rollback of tariffs occurring over the next ten years.

Not surprisingly, various political roadblocks have arisen in Canada's Parliament and the U.S. Congress as ratification of the pact nears. This was to be expected; what was unexpected has been the speed with which the business community in both countries has moved to accept the new economic reality which this agreement symbolizes.

Fortune 500 companies are shifting production from aging plants in the U.S. to modern facilities in Canada. Companies in Canada are acquiring companies in the U.S. in order to sustain a competitive advantage in their marketplace—and vice versa. These companies are reacting to the global economic reality characterized by trans-national markets served by (a) multinational companies trading with their subsidiaries and other companies and (b) domestic companies that have developed a trading partnership with foreign suppliers and customers.

The world's new economic order will have such complicated trade flows that no country could possibly restrict them without harming their own economy. In an age of surplus, there will always be someone else ready and able to sell to your customer. These forces will enhance market discipline, placing a premium on good management.

In four years, the $5 trillion U.S.-Canada common market will be competing head-on with the $4.5 trillion European community, which has established the goal of achieving a total open market among the 12 countries of the European community. The political roadblocks to achieving this goal dwarf those confronting the U.S.-Canada trade agreement—yet, as in North America, much of the European business community has embraced the new economic reality signified by the 1992 objective.

The entrepreneurial energies that will be unleashed in Europe as a result of the 1992 Agreement could result in the emergence of three economic superpowers in the next decade: Japan, North America and Europe. In the 1990's, these three groups may become the joint successor to the position the U.S. held from 1945-1973 as the world's dominant economic power.

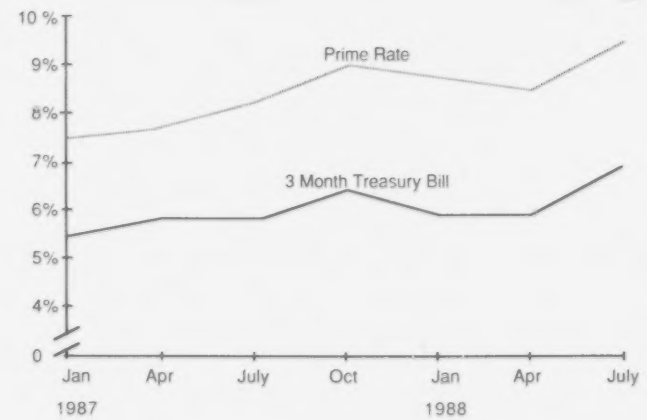
The Future of the Economy

Some economists are predicting a recession for the U.S. economy in the second half of 1989. They predict this recession will be caused by a rise in interest rates, precipitated by one of two factors: either capacity and employment constraints, occurring as a function of the unusual length of the present recovery; or a drying up of the flow of foreign capital into the U.S.—capital which the U.S. desperately needs to fund its budget and trade deficits. Yet, through July 1988, neither capacity utilization nor employment had reached saturation levels; also, both the trade deficit and the federal budget deficit have been declining since 1986.

A review of key economic indicators shows that prospects are good for continued growth in the U.S. economy through the first half of 1989.

- Interest rates fell between October 1987 and March 1988, as the Federal Reserve pumped money into the economy following Black Monday. Then, in the Spring of 1988 the Fed began tightening the money supply—sending the prime rate up to 9.5% in June. Despite a modest rise in interest rates, it is likely that short-term rates (3-month treasury bills) will be under 7.0% through July 1989. (See Figure 9) The Federal Reserve is certain to maintain ample liquidity in the economy through the end of 1988.

Figure 9
Short Term Interest Rates

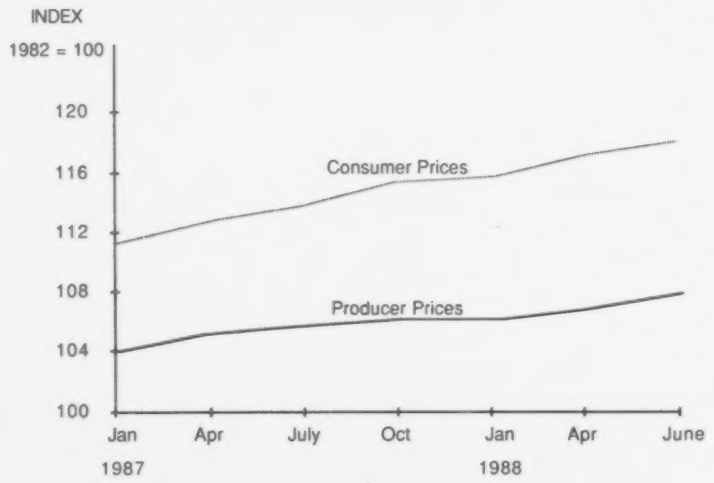


Source: Treasury Department

- Inflation remains relatively in check, with consumer prices likely to rise 4.5% in 1988, and slightly more in 1989. For a variety of reasons, wages are not showing the type of growth that signals a rekindling of inflation. (See Figure 10)

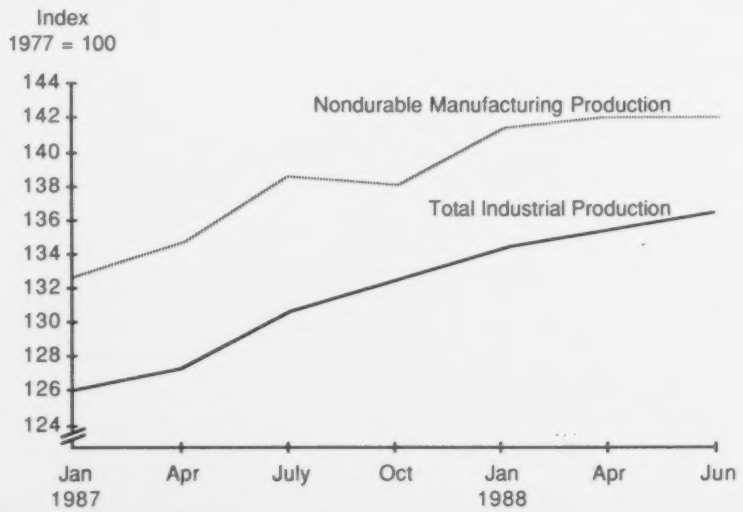
- Industrial production has risen steadily since 1986. This indicator of manufacturing activity rose nearly 4.0% in 1987 and will almost certainly exceed that level in 1988. (See Figure 11)

Figure 10
Consumer and Producer Price Indices



Source : Bureau of Labor Statistics

Figure 11
Total Industrial and Nondurable Manufacturing Production



Source: Federal Reserve

Immediately following the October 1987 stock market collapse—Black Monday—the newspapers were speculating on when the next *depression* would occur—never mind a recession. An emergency conference of Congressional and Administration officials was convened in order to "fix" the government's budget deficit—which everyone agreed was the true cause of the market collapse.

After several weeks, the joint conference emerged, predictably, with a puny compromise package of spending cuts and tax increases. The final budget deficit for fiscal 1987 was $150 billion, compared to a deficit of $221 billion in 1986. (See Figure 12)

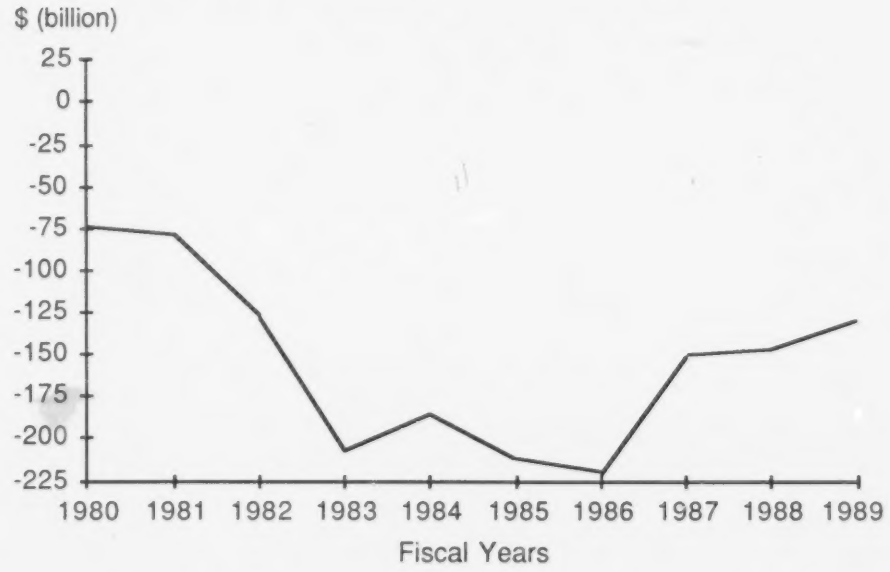
The budget deficit problem was clearly not the source of the stock market collapse, witness the recovery of the Dow Jones Industrial Average (DJIA) since the October crash. Through June 1988, the DJIA was hovering around 2100, after reaching a low mark of 1740 in late 1987. Yet, through the first 8 months of the government's 1988 fiscal year, the federal budget deficit was running slightly *above* the deficit levels of 1987. Nevertheless the stock market recovered nearly half of the ground it lost in the weeks following Black Monday.

Real GNP growth will be around 3.0% in 1988, slightly below the economy's 3.4% growth rate in 1987. Projected real GNP growth through 1992 is as follows.

1988	3.0%
1989	2.3%
1990	1.7%
1991	2.7%
1992	3.5%

The key long-term issues for the U.S. and other major economic powers are exchange rates; trade and competitiveness; and the effect of tax rates on capital formation. The number one economic story of the early 1990's will be the world's progress toward agreement on these fundamental issues. Whether the next administration is Republican or Democratic the new President will be forced to deal with these issues.

Figure 12
U.S. Federal Budget Deficit



*projected

Source: Office of Management and Budget

PAPER OUTLOOK

Through the first half of 1988, most paper end-use markets were booming.

- Through May 1988 coated paper production was 13% above the year-ago level, according to the American Paper Institute (API).
- Uncoated free sheet paper production was up 7.3% over the same time frame, according to API. (Uncoated free sheet papers include forms bond and most office cut sheet papers.)

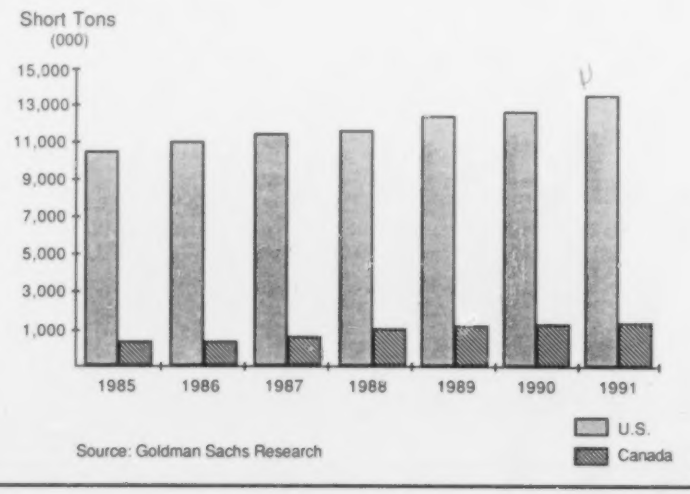
In addition to booming end use markets, the paper industry is enjoying record sales and profitability. These conditions—strong demand and record earnings—create a fertile soil in which to grow new papermaking capacity. As a result, paper industry analysts predict that uncoated free sheet capacity in North America will increase from approximately 12.9 million short tons in 1988 to 14.9 million tons in 1991—an annual growth rate of about 4.5% per year.

Figure 13 presents the current and projected capacity outlook for the North American uncoated free sheet market. This chart clearly shows that capacity is presently at an extremely high level, reflecting strong demand among uncoated free sheet end-use markets—especially reprographic cut sheet papers.

In this environment of tight capacity and healthy end use demand, the U.S. paper mills were able to raise prices of uncoated free sheet papers twice in 1987. As shown in Figure 14, forms bond prices were also raised in January and April of this year and again in the third quarter of 1988.

Forms demand over the period January 1986 thru June 1988 has been steady and, at times, quite strong. Yet, over this 30-month period, forms manufacturers have had to cope with 9 separate forms bond price increases. What is the source of these price increases, other than healthy end-use demand? Two additional factors that have contributed to this environment of rising raw materials costs are: (1) tight capacity in worldwide pulp markets and (2) the declining value of the U.S. dollar since 1985.

Figure 13
Uncoated Free Sheet Capacity, North America



Source: Goldman Sachs Research

As in all paper markets, pulp capacity runs in cycles. Pulp capacity has grown exceedingly tight in the last two years—while at the same time the value of the U.S. dollar has suffered a steady decline. Since pulp transactions on the world market are sold in U.S. dollars, a dip in the value of the dollar hurts the profit margin of foreign pulp-producing companies.

For example, 40% of the output of Canadian pulp producers is consumed by U.S. mills. Since the first quarter of 1987, the Canadian dollar has appreciated by 10% against the U.S. dollar. This appreciation has squeezed the income received by Canadian pulp producers from sales to the U.S. market; in order to recoup this loss, these producers have raised prices, which the U.S. mills have, naturally, passed on to their customers, including form companies. Figure 15 shows the trend in producer prices for 15-pound forms bond over the last 3 years.

Cut Sheet Growth

Cut sheets continue to be the fastest growing segment of the office papers market—fueled by the demand for reprographic paper and page printers (such as those required by desktop publishing systems).

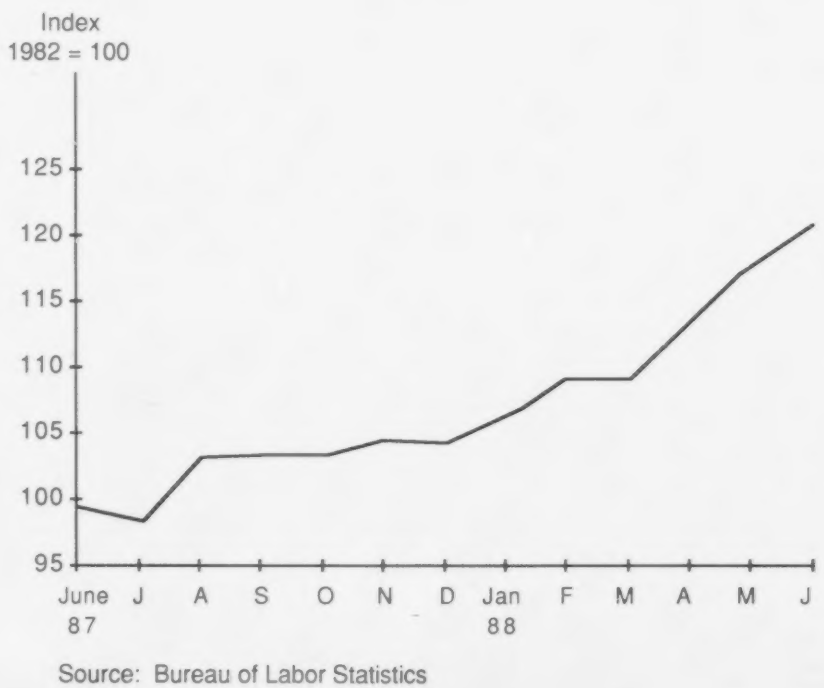
Figure 16 shows the extent to which cut sheet sales by forms manufacturers have increased since 1984.

Carbonless Trends

Demand for carbonless papers in the U.S. continues to grow approximately 8-10% annually—or double the forms industry growth rate. The rate of conversion of carbon-interleaved to carbonless forms was given a boost by the announcement in 1987 by American Express that it was converting all of its guest checks (unit set forms) to carbonless.

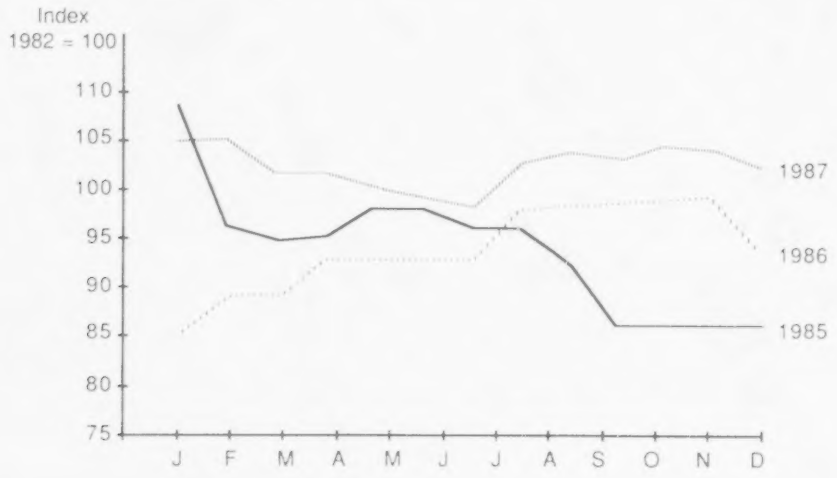
Recent developments indicate a trend toward increased competition in the carbonless paper market. Mead's acquisition of Standard Register's carbonless plant in late 1987 and the entry by James River into the carbonless market in 1988 are signals that this trend is well underway.

Figure 14
15 Lb Form Bond Producer Price Index



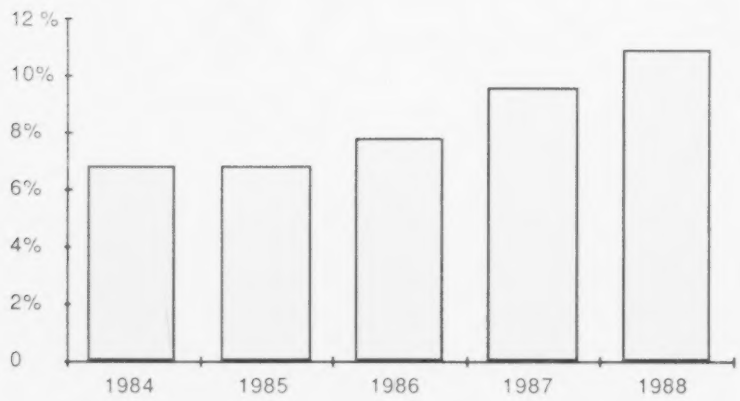
Source: Bureau of Labor Statistics

Figure 15
15 Lb Form Bond Producer Price Indices, 1985-87



Source: Bureau of Labor Statistics

Figure 16
Cut Sheet and Other Forms as Percent of Total Forms Sales



Source: IBFI Sales Index

TECHNOLOGY ISSUES

Businesses now spend 40% of their investment dollars on computers and other information-processing equipment, according to a 1988 study by the Office of Technology Assessment. This is twice the level of information technology investment in 1978, before the microcomputer revolution.

In the 11 years since Apple Computer introduced the first mass-produced microcomputer in 1977, the changes that have swept the business world have been nothing less than startling. A multi-billion dollar applications software market has blossomed out of nowhere, putting enormous resources and computing power into the hands of even the smallest business. (In 1987, according to Dataquest, the market for personal computer software packages in the U.S. equaled $7.4 billion.)

The year 1988 is the midpoint between the dawn of the microcomputer age and the year 2000. Looking forward 12 years, one must expect further sweeping developments in office automation. The most significant of these developments will occur in the areas of connectivity (networks) and software standardization.

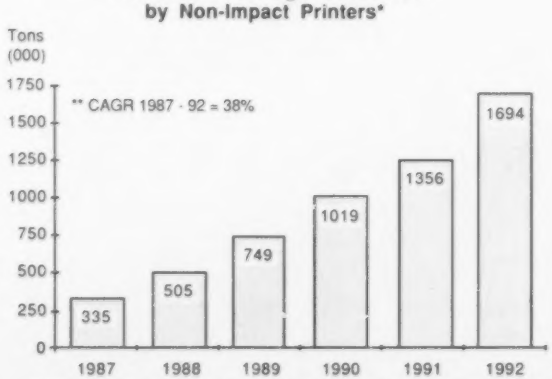
The issue of software standardization has received considerable attention this year, as the world's major computer manufacturers have joined forces in order to combat AT&T's aggressive efforts to promote its Unix operating system as the industry standard.

These manufacturers—including DEC, IBM, Siemens, and Hewlett/Packard—created an Open Software Foundation in 1988; the Foundation's stated agenda is to develop a non-proprietary operating system that will compete with Unix and restore order to the marketplace. Its private agenda, of course, is to derail AT&T's effort to create a de facto industry standard for computer operating systems.

Electronic Imaging

Recent trends in the electronic printer industry continue to support the tremendous growth in cut sheet applications and demand. Figure 17, for example, shows cut sheet tonnage consumed by non-impact printers from 1987 through 1992.

Figure 17
Cut Sheet Tonnage Consumed by Non-Impact Printers*



*Non-impact printers include: page printers (including laser), thermal transfer, and ink jet printers. ** CAGR = compound annual growth rate.

Source: Dataquest

Growth in cut sheet demand was fueled by two product developments in 1988. The first was IBM's announcement of a high-speed (92 pages/minute) cut sheet page printer—the IBM 3827. Manufactured for IBM by Kodak, the 3827 is IBM's challenge to the Xerox 9700 high-speed laser printer and is IBM's first cut sheet entry in the high-speed page printer market. Shipments of the IBM 3827 began in June 1988; its effect on the IBM 3800 market (high-speed continuous laser printer) will be watched closely by the forms industry.

The second important product development in 1988 was the color laser copier, introduced by Canon. This development may signal the next phase of the desktop publishing phenomenon: in-house production of color documents—including forms, of course. In the future, as color copiers move down the price-performance curve, they can be linked by users with desktop publishing systems to produce statements, invoices and forms that use color; this feature will make these forms suitable for external applications—thus increasing the displacement of traditional forms applications.

Networks & Integration

The most important trend in the information processing industry for the remainder of this decade and into the next will be connectivity ... networks ... integration. The major computer manufacturers and software houses accept the need for standardization of operating systems—but they can't decide which standard to adopt.

This controversy over operating systems has significant long-term implications for the computer industry. If, in 5 or 10 years, a standard, vendor-neutral operating system becomes a reality, much of the user's confusion and frustration will be eliminated. When this happens, the edge will belong not to the computer company that has the glitziest product—but to the one that has the best customer service—marketing, distribution, etc. This will pave the way for an enormous shake-out in the computer industry, both among hardware manufacturers and software companies.

The implications of such a shake-out for the forms industry are difficult to predict. For the large, national forms producers, it could present a significant threat--as they might be frozen out of certain markets due to the power of the biggest computer companies. For the smaller forms producer, this scenario implies increased competition and the need to concentrate on niches.

Local area networks, such as Ethernet and IBM's token ring system, are the direction in which this integration will occur. Growth in LANs is difficult to estimate, but sources in the computer industry indicate growth has been very strong since 1986. According to International Data Corporation, 1 of 4 personal computers in the U.S. is currently part of a local area network.

Closely related to developments affecting LANs is EDI—Electronic Data Interchange. EDI refers to a system for replacing paper- and phone-based systems with an electronic communications system. Its impact on the forms industry is significant, as it replaces statements, invoices, bills of lading, etc, with electronic communications.

The process of developing and implementing EDI standards is well underway, with standards being developed by American National Standards Institute (ANSI) and Transportation Data Coordinating Committee (TDCC). In contrast to the rest of the computer industry, EDI standards are a picture of compatibility; this is why EDI (predicted to be a multi-billion dollar industry in the 90's) remains the most potent threat to the forms industry in the next decade.

FORMS MARKETING TRENDS

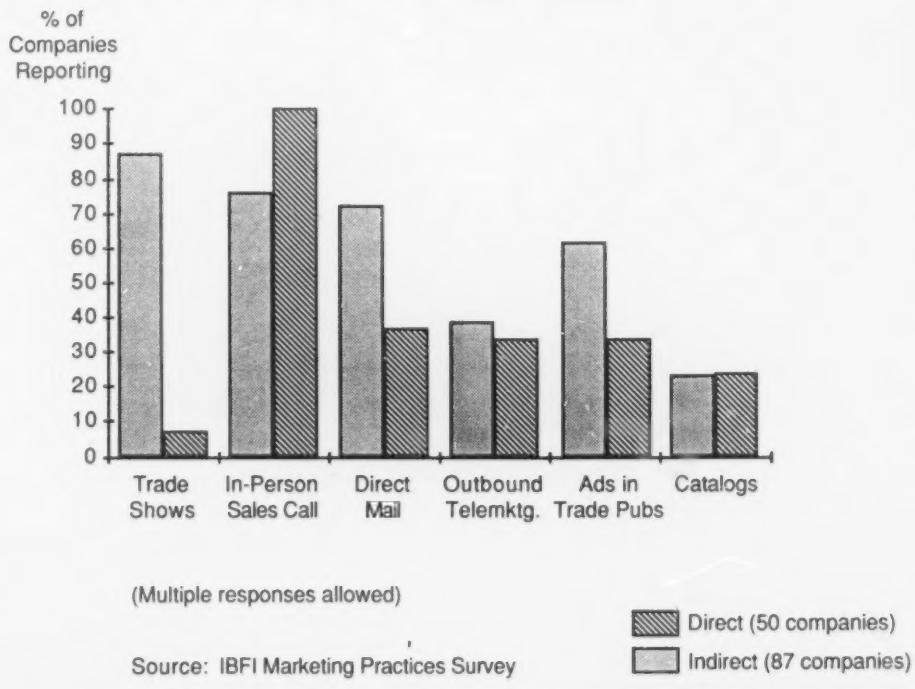
The marketing challenges—and opportunities—confronting business forms manufacturers are growing. These challenges would be significant if only due to the microcomputer revolution, which has fundamentally changed the forms industry's distribution and selling channels. Add to this the many new competitors entering the forms industry and the demographic changes that are occurring in the U.S. economy, and the marketing equation for forms manufacturers becomes extremely complex.

Marketing, of course, is the task of satisfying customers' needs. The forms industry customer is changing, and so are his needs.

One indicator of changing needs is the customer's willingness to wait for an order to be filled. According to a survey by *Purchasing* magazine, buyers' expected leadtime for business forms orders declined from 4.9 weeks in June 1987 to 3.8 weeks in June 1988—a decline of 24%. This statistic reflects the increasing use of customer service as a marketing edge by forms manufacturers.

The utilization of various forms industry marketing methods was the subject of an October 1987 Business Forms Marketing Practices Survey conducted by IBFI. Figure 18 compares the use of marketing methods by forms companies that sell direct to the end user and those that sell through distributors (indirect).

Figure 18
Marketing Methods Used by Direct and Indirect Forms Companies



Source: IBFI Marketing Practices Survey

Figure 18 clearly demonstrates the perceived value that indirect forms manufacturers place in trade shows as a means of marketing their products to their customers—the distributor. Most of these firms participated in less than 10 trade shows per year:

Trade Shows per Year	Percent Reporting
0	14%
1-5	33%
6-10	25%
11-15	17%
16-20	2%
21-30	5%
Over 30	4%
	100%

The average expense per trade show among 72 reporting companies was $1,726 (direct costs only, exclusive of staff time). Nearly half (49.3%) of these companies said they were satisfied with their return on this investment while just 12% said they were not satisfied. However, nearly 40% of these companies were not sure whether their investment in trade shows was producing a satisfactory return.

One of the most significant marketing challenges facing the forms industry today involves the short-run forms market, which is defined by IBFI to be an order of 10,000 forms or less; at an estimated annual sales volume of $1.5 billion, the short-run market is the fastest growing segment of the business forms market.

Serving the short-run market presents numerous challenges for forms producers. The major national forms manufacturers have adopted a strategy of multiple distribution channels in response to the rapid growth of the short-run market—adding telemarketing, catalogs and office retail networks to their direct sales force; results of these experiments have been mixed, as some of these large manufacturers have been forced to sell off their investments in retail outlets and catalogs in the last two years.

The emergence of commercial and quick printers as key short-run distribution channels has prompted many smaller forms manufacturers to open up "very-short-run" divisions; these VSR units offer faster turnaround times, order sizes under 1,000 forms, and specialize in such products as checks, continuous letterhead, and other computer forms. This strategy provides an excellent vehicle for forms manufacturers to open up new channels of distribution through commercial and quick printers.

U.S. BUSINESS FORMS FORECAST

The competitive scene of the U.S. forms industry in 1988 can be accurately described as tumultuous. Changes in the ownership of major forms companies are occurring with rapid-fire frequency; rising materials costs are pressuring forms companies to restructure internal operations in order to stay competitive; new competitors are entering the market, especially in the short-run segment; and the pace of development of non-impact printing technology continues to accelerate—as laser and other non-impact printers become less expensive and more versatile.

For the smaller U.S. forms manufacturers, e.g., with revenues under $20 million, this competitive situation presents a difficult challenge: their internal controls, management expertise and marketing acumen are suited to a market that existed 5 or more years ago—when demand was growing at 5-10% per year, depending on the strength of the economy. As the industry matures, demand will be in the 2-4% range through 1995. The margin on which these companies survive will thereby grow smaller and smaller.

For mid-sized forms companies with annual sales of $20-$100 million, the challenge is to acquire a strategic direction that fits the firm's capabilities. Depending on the direction chosen, this may require the company to abandon certain product lines and plunge into entirely new markets, such as direct mail or pressure sensitive labels.

Among the large, publicly-owned forms companies, competitive forces will push them toward the information systems arena and away from the traditional forms market. Vertical market strategies (e.g., health care, banking and insurance) combined with expertise in systems integration and information management will be the keys to success in this end of the market—where the competitors will include companies such as IBM, Xerox and AT&T.

TABLE 1
U.S. BUSINESS FORMS SALES, 1987-1992*

	1987	1988	1989	1990	1991	1992
Custom Continuous	$3,098	$3,268	$3,363	$3,433	$3,525	$3,606
Stock Continuous	1,628	1,707	1,792	1,847	1,921	2,023
Unit Sets	1,563	1,605	1,629	1,637	1,661	1,692
Salesbooks, Pegboard	331	348	359	383	409	437
Total	6,620	6,928	7,143	7,300	7,516	7,758

* In millions of 1987 dollars at shipment values; estimates for 1988 - 1992 are IBFI projections.

Source: IBFI

The business forms industry is in a state of transition between two eras. The old era, characterized by stable distribution channels and long order runs, reached its zenith in the 1970's. The new era is characterized by variable order sizes and rapidly changing markets and distribution channels. In some segments of the forms industry, such as the short run market, this new era is already here; in others, it has yet to fully arrive.

The key success factors for forms companies competing in the new era will be flexibility and specialization. Increasingly, the forms company that tries to be "all things to all people" will be doomed to failure. Therefore, the most important question forms companies must ask themselves is, "what business do I want to be in?"

The IBFI forecast (Table 1) projects average real growth for the forms industry through 1992 of approximately 3.2% per year. The forecast presumes an economic slowdown, but not an outright recession, in the mid-1989-1990 time frame. Table 2 provides a forecast of year-to-year change by product line for the U.S. business forms market.

TABLE 2

U.S. BUSINESS FORMS SALES, YEAR-TO-YEAR CHANGE

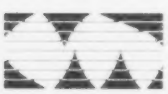
	1987-88	1988-89	1989-90	1990-91	1991-92
Custom Continuous	5.5%	2.9%	2.1%	2.7%	2.3%
Stock Continuous	4.9%	5.0%	3.1%	4.0%	5.3%
Unit Sets	2.7%	1.5%	0.5%	1.5%	1.9%
Salesbooks, Pegboard	5.1%	3.2%	6.7%	6.7%	6.8%
Total	4.7%	3.1%	2.2%	3.0%	3.2%

Source: IBFI

APPENDIX
HISTORICAL STATISTICS

Sales Data, Manifold Business Forms
(Millions of Current-Year Dollars at Shipment Values)

	Unit Sets	Custom Continuous	Stock Continuous	Sales And Other Books	TOTAL
1958	159.6	150.4	18.8	45.2	374.0
1963	265.5	239.4	53.9	39.6	598.4
1967	361.7	391.9	98.0	44.2	895.8
1970	468.4	493.4	185.0	52.3	1,199.1
1971	486.4	518.9	190.0	47.0	1,242.3
1972	547.3	578.2	204.9	51.5	1,381.9
1973	630.2	733.7	282.1	59.8	1,705.8
1974	776.2	966.1	432.2	78.8	2,253.3
1975	781.6	944.9	413.7	78.3	2,218.5
1976	849.1	970.3	521.1	84.8	2,425.3
1977	958.1	981.1	633.9	129.5	2,702.6
1978	1,065.1	1,194.8	680.3	137.9	3,078.1
1979	1,248.7	1,466.9	891.4	154.2	3,761.2
1980	1,323.1	1,657.9	1,031.7	174.1	4,186.8
1981	1,417.2	1,823.7	1,186.5	175.7	4,603.1
1982	1,390.3	1,886.0	1,229.3	184.0	4,689.6
1983	1,250.0	2,020.0	1,305.0	260.0	4,835.0
1984	1,350.0	2,465.0	1,490.0	280.0	5,585.0
1985	1,415.0	2,650.0	1,530.0	295.0	5,890.0
1986	1,470.0	2,820.0	1,515.0	300.0	6,105.0
1987	1,563.0	3,098.0	1,628.0	331.0	6,620.0



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